[Glossary]

Dividend decision in financial management

Subject:	Business Economics
Course:	B.A., 3rd Semester, Undergraduate
Paper No. & Title:	Paper – 303 Business Finance
Unit No. & Title:	Unit – 4 Dividend Decision
Lecture No. & Title:	Lecture – 1 Dividend decision in financial management

Glossary

Capital structure: it is that part of financial structure which represents long-term sources.

Cost of capital: it is that minimum rate of return which a firm must earn on its investments so as to maintain the market value of its share.

DPS (dividend per share): The sum of declared dividends for every ordinary share issued. Dividend per share (DPS) is the total dividends paid out over an entire year (including interim dividends but not including special dividends) divided by the number of outstanding ordinary shares issued.
DPS can be calculated by using the following formula:
DPS= D-SD/S
D - Sum of dividends over a period (usually 1 year)
SD - Special, one time dividends
S - Shares outstanding for the period

EPS (earning per share): The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability.

Floatation cost: The costs incurred by a publicly traded company when it issues new securities. Flotation costs are paid by the company that issues the new securities and includes expenses such as underwriting fees, legal fees and registration fees. Companies must consider the impact these fees will have on how much capital they can raise from a new issue.

Growth rate: Basic growth rates are simply expressed as the difference between two values in time in terms of a percentage of the first value.

Liquidity status: current liquid (cash) position of the company

Optimum capital structure: it is that capital structure where market value per share is maximum and cost of capital is minimum.

Rate of return: The gain or loss on an investment over a specified period, expressed as a percentage increase over the initial investment cost. Gains on investments are considered to be any income received from the security plus realized capital gains.

Retention rate: The proportion of earnings kept back in the business as retained earnings. The retention ratio refers to the percentage of net income that is retained to grow the business, rather than being paid out as dividends. It is the opposite of the payout ratio, which measures the percentage of earnings paid out to shareholders as dividends.

On a per-share basis, the retention ratio can be expressed as (1 – Dividends per share / EPS).

$$\text{Retention Ratio} = \frac{\text{Net Income} - \text{Dividends}}{\text{Net Income}}$$
$$= \frac{1 - \text{Dividends}}{\text{Net Income}}$$
$$= 1 - \text{Payout Ratio}$$

Transactional cost: .A fee charged by a financial intermediary such as a bank, broker, or underwriter.